

# City of Detroit

## CITY COUNCIL

IRVIN CORLEY, JR.  
FISCAL ANALYST  
(313) 224-1076

FISCAL ANALYSIS DIVISION  
Coleman A. Young Municipal Center  
2 Woodward Avenue, Suite 218  
Detroit, Michigan 48226  
FAX: (313) 224-2783  
E-Mail: cc-fiscal@ci.detroit.mi.us

ANNE MARIE LANGAN  
ASSISTANT FISCAL ANALYST  
(313) 224-1078

TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*

DATE: December 6, 2007

RE: Eastern Market Corporation Financial Information

Recently, the Fiscal Analysis Division received financial information from the Eastern Market Corporation. The information is attached for your edification.

The financial information includes the following:

- The 2007-08 Operating Budget for the Eastern Market Corporation (EMC) that was recently adopted by its Board of Directors;
- A management letter dated October 18, 2007 prepared by the audit firm of George Johnson & Company stemming from the audit of Eastern Market's financial statements as of June 30, 2007;
- An audit letter from George Johnson & Company dated October 18, 2007 to the Finance Committee of the EMC; and
- The audited financial statements for the EMC as of June 30, 2007, with an unqualified opinion from George Johnson & Company.

The Fiscal Analysis Division is in the process of reviewing this material, and we will report back to your Honorable Body any issues we may find.

We suggest that the Council set a discussion on this matter in the appropriate Committee in late January to give us time to review the information. A representative from the EMC, George Johnson & Company, Finance, Budget and Fiscal Analysis should be a part of the discussion. Information from this discussion maybe helpful to your Honorable Body as you deliberate over the Mayor's proposed 2008-09 budget in April.

### Attachments

cc: Council Divisions  
Auditor General's Office  
Ombudsperson's Office  
Douglass Diggs, Planning and Development Director

Roger Short, Chief Financial Officer  
Pamela Scales, Budget Director  
Kandia Milton, Mayor's Office

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# EASTERN MARKET CORPORATION

November 26, 2007

Mr. Irvin Corley  
City of Detroit Fiscal Analysis Division  
2 Woodward Ave., Room 218  
Detroit, MI 48226

Dear Mr. Corley and Ms. Jackson:

On June 30, 2007, the Eastern Market Corporation (EMC) completed the 2006-2007 fiscal year. A financial audit of the EMC for the year ended June 30, 2007 was completed on October 18, 2007 by EMC auditors, George Johnson & Company. The Audit was presented to our Board of Directors on October 24, 2007.

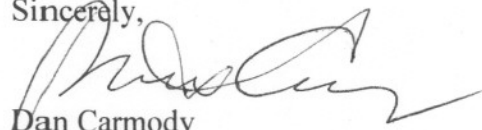
A copy of the final audit received by the EMC Board of Directors and October 18, 2007 letters to the EMC Finance Committee are enclosed for your information.

You will note the Management Letter, prepared by George Johnson & Company, identifies control deficiencies and related recommendations. The Eastern Market Corporation is in the process of instituting the recommended procedures related to segregation of day stall rentals from collection of payments; recording lease revenue on an accrual basis; recording expenses on a functional basis; implementing a capitalization policy, and signing of lease agreements.

Please also find attached a copy of the 2007-2008 Budget as adopted by the Eastern Market Board of Directors at their meeting of October 24, 2007.

If you have any questions regarding the 2006-2007 EMC Audit or 2007-2008 budget please contact me to discuss.

Sincerely,



Dan Carmody  
President

cc: Ms. Loren Jackson, Director, Detroit Recreation Department  
George W. Jackson, Jr., EMC Chairman  
Walter Watkins, EMC Finance Committee Chairman  
EMC Board of Directors

# EASTERN MARKET CORPORATION DRAFT OPERATING BUDGET 2007-2008

EMC Draft 2007-2008 Budget

	Account #	Contributions (C)	Vendor Revenues (V)	CDBG Block Grant (B)	Total Operating Funds	Notes
<b>REVENUES</b>						
Market Vendors, other rentals			\$ 765,000.00		\$ 765,000.00	
CDBG				\$ 250,000.00	\$ 250,000.00	
Interest Income			\$ 10,000.00		\$ 10,000.00	
Msc. Income	\$ 50,000.00		\$ 30,000.00		\$ 80,000.00	Hudson Webber/DDP
Interfund Transfer			\$ 30,000.00		\$ 30,000.00	City Budget
Contributions	\$ 595,500.00				\$ 595,500.00	Kellogg/CFSEM/TBD
		<b>\$ 645,500.00</b>	<b>\$ 835,000.00</b>	<b>\$ 250,000.00</b>	<b>\$ 1,730,500.00</b>	
<b>EXPENDITURES</b>						
<b>Personnel</b>						
Salaries	63500	\$ 274,000.00	\$ 315,000.00	\$ 100,000.00	\$ 689,000.00	
Tax Liability	63110	\$ 40,000.00	\$ 47,000.00	\$ 10,000.00	\$ 97,000.00	
Full-time Fringe Benefits	61420	\$ 25,000.00	\$ 70,000.00	\$ 17,000.00	\$ 112,000.00	
<b>Personnel Sub-Total</b>		<b>\$ 339,000.00</b>	<b>\$ 432,000.00</b>	<b>\$ 127,000.00</b>	<b>\$ 898,000.00</b>	
<b>Professional Fees</b>						
Audit, Accounting	62500		\$ 15,000.00	\$ 20,000.00	\$ 35,000.00	
Legal	62600		\$ 30,000.00		\$ 30,000.00	
Econ Development	62720	\$ 50,000.00		\$ 38,500.00	\$ 88,500.00	
Communications	62710	\$ 10,000.00			\$ 10,000.00	
Outreach Plan	62750	\$ 55,500.00			\$ 55,500.00	
Evaluation	62730	\$ 45,000.00			\$ 45,000.00	
Executive	62740		\$ 30,000.00		\$ 30,000.00	
<b>Professional Fees Sub-Total</b>		<b>\$ 160,500.00</b>	<b>\$ 75,000.00</b>	<b>\$ 58,500.00</b>	<b>\$ 294,000.00</b>	
<b>Office Expenses</b>						
Office Supplies	62100	\$ 10,000.00	\$ 5,000.00	\$ 10,000.00	\$ 25,000.00	
Telephone	63200	\$ 6,000.00	\$ 4,000.00		\$ 10,000.00	
Office Equipment	62000	\$ 4,000.00	\$ 2,000.00	\$ 3,500.00	\$ 9,500.00	
Leased Office Equipment	62010		\$ 3,000.00		\$ 3,000.00	
Financial Reporting Services	62510	\$ 14,000.00	\$ 6,000.00		\$ 20,000.00	
Postage	62300			\$ 2,000.00	\$ 2,000.00	
Memberships, Subscriptions, and Professional Certifications	61100	\$ 3,000.00	\$ 2,000.00		\$ 5,000.00	
Insurance	61410	\$ 10,000.00	\$ 8,000.00		\$ 18,000.00	
Printing/Reproduction/Production	62400	\$ 10,000.00	\$ 2,000.00	\$ 7,000.00	\$ 19,000.00	
Travel/Professional Development	63300	\$ 22,000.00			\$ 22,000.00	
Milage/Parking	62200		\$ 2,000.00		\$ 2,000.00	
<b>Office Expenses Sub-Total</b>		<b>\$ 79,000.00</b>	<b>\$ 34,000.00</b>	<b>\$ 22,500.00</b>	<b>\$ 135,500.00</b>	
<b>Maintenance and Security</b>						
Security	63000		\$ 50,000.00	\$ 22,000.00	\$ 72,000.00	
Groundskeeping	60020		\$ 78,000.00		\$ 78,000.00	
Maintenance and Repair	60030		\$ 108,000.00		\$ 108,000.00	
Market supplies	60040		\$ 18,000.00		\$ 18,000.00	
Capital Equipment	60010	\$ 20,000.00	\$ 40,000.00	\$ 20,000.00	\$ 80,000.00	
<b>Maintenance and Security Sub-Total</b>		<b>\$ 20,000.00</b>	<b>\$ 294,000.00</b>	<b>\$ 42,000.00</b>	<b>\$ 356,000.00</b>	
<b>Marketing/Promotion/Education</b>						
Communications	61730	\$ 7,000.00			\$ 7,000.00	
Events	61720	\$ 20,000.00			\$ 20,000.00	
Advertising/Promotions	61700	\$ 20,000.00			\$ 20,000.00	
<b>Marketing Sub-Total</b>		<b>\$ 47,000.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 47,000.00</b>	
<b>Total Expenses</b>		<b>\$ 645,500.00</b>	<b>\$ 835,000.00</b>	<b>\$ 250,000.00</b>	<b>\$ 1,730,500.00</b>	



# George Johnson & Company

1200 Buhl Building • 535 Griswold Street • Detroit, Michigan 48226-3689  
(313) 965-2655 • Fax (313) 965-4614

October 18, 2007

To the Finance Committee and Management  
Eastern Market Corporation  
Detroit, Michigan

In planning and performing our audit of the financial statements of Eastern Market Corporation (the "Corporation") as of, and for the year ended, June 30, 2007 in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Corporation's internal control. We consider the following deficiency to be significant deficiency in internal control:

## **Controls over Market Operations**

### **Condition**

The Corporation's market operation revenue comes mostly from annual rentals and day rentals of the stalls. Currently, the same individual records day rental tenant attendance and collects day rentals paid by check or money order. The annual rentals and day rental tenant attendance are not reconciled to the actual cash receipts. Sometimes the open stalls are sold to day renters on Saturdays if the annual tenant does not appear.

**Controls over Market Operations (continued)**

**Recommendation**

Annual rentals and day rental tenant attendance are very important performance indicators for market operations. Without reconciliations, management may not be alerted to indicators of potential fraud caused by revenue skipping or by problems in annual rental collection. We have the following recommendations:

- The authorization and recording of day rentals should be segregated from the collection of payments.
- An independent employee should perform spot checks a few times a day on the proper authorization of the day rentals.
- Market operation revenue, recorded on the accrual basis, should be reconciled to the attendance records periodically. Significant variances should be investigated and resolved.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Corporation's internal control. We believe that the following deficiency constitutes a material weakness:

**Lease Revenue**

**Condition**

We noted that the Corporation's annual lease term for tenants is from April 1 to March 31 of each year. Lease invoices are issued with the option to pay the annual rent in full in one installment or to pay the rent in two installments. As the Corporation's fiscal year ends on June 30, most of the lease payments received include either three or nine months of prepaid rent as of June 30. Also, some tenants have not paid the invoice as of June 30, resulting in a receivable. Lease revenue has been recorded on a cash basis, which does not present lease revenue earned and applicable to the reporting period on the financial statements.

**Recommendation**

An adjusting entry should be posted by management to record lease revenue on the accrual basis. Preferably, such an adjustment would be posted monthly, but this adjustment needs to be recorded at least as of June 30 each year, prior to the start of the audit. This will provide a more accurate presentation of lease revenue earned on the financial statements.

During our audit, we became aware of the following other matters that are opportunities for strengthening internal control and operating efficiency:

### **Functional Expense Allocation**

#### **Condition**

While the Corporation currently allocates expenses by funding sources, the Corporation does not record its expenses on a functional basis in the general ledger. A functional basis of accounting records accounting activity by major program or function within an organization, such as program services, management and general, and fund raising, but also maintains the "natural" expense classification, such as salaries, supplies, or printing costs for the particular cost center.

#### **Recommendation**

We recommend that the Corporation record expenses using such functions as management and general, fund raising, market operations, outreach program services, and other program services, while maintaining the record of "natural" and funding source classifications. Employee time sheets or effort reports (actual or estimated) are typically used to facilitate the allocation of overhead expenses to each functional area. The practice of recording expenses on a functional basis will greatly enhance the accounting system and provide much more meaningful information with regard to the Corporation's financial position and results of operations.

### **Capitalization Policy**

#### **Condition**

Currently, the Corporation does not have a formal written fixed asset capitalization policy. Such a policy will provide a consistent practice as to which items are capitalized on the financial statements and which items are expensed.

#### **Recommendation**

A written policy should be developed and implemented in order to more effectively control and account for the Corporation's property and equipment. To accomplish this goal, we suggest that the following matters be included in the policy:

- A minimum dollar amount for capitalization within the various property accounts should be specified.
- Written guidelines for proper account classification of all routine fixed asset additions (furniture and fixtures, leasehold improvements, etc.) should be included.

**Capitalization Policy (continued)**

Recommendation (continued)

- The Corporation's policy differentiating between repairs and maintenance items and long-term improvements should be documented.

The development and implementation of these policies will improve the consistency of the accounting treatment for purchases of fixed assets.

**Annual Lease Agreements**

Condition

During our testing of lease revenue, we noted that some lease agreements were not signed by the tenants.

Recommendation

Signed lease agreements for all annual tenants should be obtained and retained.

This communication is intended solely for the information and use of management, the Finance Committee, and others within the Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.



CERTIFIED PUBLIC ACCOUNTANTS



# **George Johnson & Company**

1200 Buhl Building • 535 Griswold Street • Detroit, Michigan 48226-3689  
(313) 965-2655 • Fax (313) 965-4614

October 18, 2007

To the Finance Committee  
Eastern Market Corporation  
Detroit, Michigan

We have audited the financial statements of Eastern Market Corporation (the "Corporation") as of, and for the year ended, June 30, 2007, and are prepared to issue our report thereon dated October 18, 2007. Under professional standards, we are providing you with the following information related to our audit.

## **Our Responsibility under Auditing Standards Generally Accepted in the United States**

As stated in our engagement letter dated May 30, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Corporation. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

## **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Corporation are described in Note A to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed, during the year. We noted no transactions entered into by the Corporation during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

### **Accounting Estimates (continued)**

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no estimates that we considered to be significantly sensitive that affect the Corporation's financial statements.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Corporation's financial reporting process (that is, cause future financial statements to be materially misstated). The audit adjustments we proposed, which were all recorded by management, are attached to this letter; none of those adjustments, in our judgment, either individually or in the aggregate, have a significant effect on the Corporation's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Finance Committee  
Eastern Market Corporation  
October 18, 2007  
Page Three

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Finance Committee, Board of Directors, and management of the Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

  
CERTIFIED PUBLIC ACCOUNTANTS

0/23/2007 11:09AM

Eastern Market Corporation  
Client Journal Entries Report : Adjusting Entries  
June 30, 2007

Page: 1  
Prepared by: GZ  
Reviewed by:

Entry #	Status	Account/Code	Description	Workpaper	Reference	Debit	Credit
JE 1	Posted	2000-10-CDBG 5100-10-CDBG	Accounts Payable Audit Expense	AP-1	1	10,250.00	10,250.00
		To reverse audit fee accrual					
JE 2	Posted	5000-10-OPER 2101-10-OPER	Full time Salaries Salaries Payable	PR-3	2	2,146.07	2,146.07
		To accrue wages as of 6/30/2007					
JE 3	Posted	1003-10-FDNG 5900-10-FDNG	Cash - Bank One Savings Miscellaneous Expense		3	203.50	203.50
		To zero the bank one savings account & to write off the account that does not exist					
JE 4	Posted	4700-10-OPER 4200-10-OPER 4700-10-OPER	Grant Income Vendor Revenues Grant Income		4	140,694.95 33,462.77	174,157.72
		to reclass DEGC misposting					
JE 5	Posted	1700-10-OPER 5900-10-OPER	Inventory Miscellaneous Expense		5	2,872.65	2,872.65
		To reclass inventory					
JE 6	Posted	1400-00-OPER 4200-10-OPER 2400-00-OPER	RENT RECEIVABLE Vendor Revenues Deferred Rent	AR-1	6	3,168.25 220,992.15	224,160.40
		to post rent receivable & deferred rent					
JE 7	Posted	1450-00-CDBG 4700-10-CDBG	CDBG Grant Receivable Grant Income	GRC-1	7	133,025.50	133,025.50
		to post receivable from the City of Detroit for the block grant					
JE 8	Posted	4800-10-FDNG 5000-10-OPER 5403-10-FDNG	In-Kind Donation Full time Salaries Occupancy	DON-2	8	66,625.00 15,000.00	81,625.00
		To record the donated facility and donated services					
TOTALS						628,440.84	628,440.84

EASTERN MARKET  
CORPORATION  
(A Michigan Non-Profit Corporation)

**FINANCIAL STATEMENTS**

**June 30, 2007**



EASTERN MARKET CORPORATION  
(A Michigan Non-Profit Corporation)

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**George Johnson  
& Company**

1200 Buhl Building • 535 Griswold Street • Detroit, Michigan 48226-3689  
(313) 965-2655 • Fax (313) 965-4614

**INDEPENDENT AUDITORS' REPORT**

October 18, 2007

To the Board of Directors  
Eastern Market Corporation  
Detroit, Michigan

We have audited the accompanying statement of financial position of Eastern Market Corporation (the "Corporation," a Michigan non-profit Corporation) as of June 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Eastern Market Corporation as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

  
CERTIFIED PUBLIC ACCOUNTANTS

EASTERN MARKET CORPORATION  
(A Michigan Non-Profit Corporation)

**STATEMENT OF FINANCIAL POSITION**

**June 30, 2007**

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**ASSETS**

**Current Assets:**

Cash and cash equivalents	\$ 675,270
Grants receivable (no allowance considered necessary)	133,026
Leases receivable (no allowance considered necessary)	3,168
Accrued interest receivable (no allowance considered necessary)	8,666
Investments designated for renovations (Note A)	1,000,000
Inventory (Note A)	2,873
Prepaid expenses	<u>11,924</u>

<b>Total Current Assets</b>	<b><u>1,834,927</u></b>
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**Fixed Assets (Note A):**

Furniture	5,402
Equipment	18,526
Leasehold improvements	<u>73,062</u>

96,990

Less: Accumulated depreciation	<u>(8,832)</u>
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<b>Total Fixed Assets</b>	<b><u>88,158</u></b>
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<b>Total Assets</b>	<b><u><u>\$ 1,923,085</u></u></b>
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See notes to financial statements.

EASTERN MARKET CORPORATION  
(A Michigan Non-Profit Corporation)

**STATEMENT OF FINANCIAL POSITION (CONTINUED)**

**June 30, 2007**

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**LIABILITIES AND NET ASSETS**

**Current Liabilities:**

Accounts payable	\$ 7,160
Accrued payroll and related liabilities	2,186
Deferred lease revenue (Note A)	<u>224,160</u>

<b>Total Liabilities</b>	<b><u>233,506</u></b>
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**Net Assets:**

Unrestricted	1,639,579
Temporarily restricted (Note B)	<u>50,000</u>

<b>Total Net Assets</b>	<b><u>1,689,579</u></b>
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<b>Total Liabilities and Net Assets</b>	<b><u><u>\$ 1,923,085</u></u></b>
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See notes to financial statements.

EASTERN MARKET CORPORATION  
(A Michigan Non-Profit Corporation)

**STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2007**

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**Changes in Unrestricted Net Assets:**

**Revenue:**

Foundation contributions (Note A)	\$ 1,500,000
Other contributions	8,347
Lease revenue (Note A)	586,137
Block grant	221,052
Donated facilities and services (Note A)	81,625
Interest and other income	11,304

<b>Total Unrestricted Revenue</b>	<b><u>2,408,465</u></b>
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**Expenses (Note E):**

Salaries and benefits	372,377
Professional fees	138,633
Occupancy	15,000
Security and maintenance	131,740
Publications and marketing	65,448
Office expenses	61,833
Depreciation (Note A)	8,832

<b>Total Expenses</b>	<b><u>793,863</u></b>
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<b>Net Increase in Unrestricted Net Assets</b>	<b><u>1,614,602</u></b>
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**Changes in Temporarily Restricted Net Assets:**

Contributions	<u>50,000</u>
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<b>Net Increase in Temporarily Restricted Net Assets</b>	<b><u>50,000</u></b>
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<b>Net Increase in Net Assets</b>	<b>1,664,602</b>
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Net Assets, Beginning of Year	<u>24,977</u>
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<b>Net Assets, End of Year</b>	<b><u><u>\$ 1,689,579</u></u></b>
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See notes to financial statements.



EASTERN MARKET CORPORATION  
(A Michigan Non-Profit Corporation)

**STATEMENT OF CASH FLOWS**

**For the Year Ended June 30, 2007**

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**Cash Flows from Operating Activities:**

Net increase in net assets	\$ 1,664,602
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:	
Depreciation	8,832
(Increase) decrease in:	
Grants receivable	(133,026)
Leases receivable	(3,168)
Accrued interest receivable	(8,666)
Inventory	(2,873)
Prepaid expenses	(11,924)
Increase in:	
Accounts payable	7,160
Accrued payroll and related liabilities	2,186
Deferred lease revenue	224,160

<b>Net Cash Provided by Operating Activities</b>	<b><u>1,747,283</u></b>
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**Cash Flows from Investing Activities:**

Acquisition of investments	(1,000,000)
Acquisition of fixed assets	<u>(96,990)</u>

<b>Net Cash Provided (Used) by Investing Activities</b>	<b><u>(1,096,990)</u></b>
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<b>Net Increase in Cash and Cash Equivalents</b>	<b>650,293</b>
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Cash and Cash Equivalents Balance, Beginning of Year	<u>24,977</u>
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<b>Cash and Cash Equivalents Balance, End of Year</b>	<b><u>\$ 675,270</u></b>
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See notes to financial statements.

EASTERN MARKET CORPORATION  
(A Michigan Non-Profit Corporation)

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities and Purpose**

Eastern Market Corporation (the "Corporation") is a Michigan non-profit corporation organized to combat community deterioration and to lessen the burdens of government by performing the following functions:

- Developing, maintaining, and promoting the Eastern Market district of Detroit, Michigan as a viable district for residential and commercial uses that complement the farmers' market and food-based businesses in the district
- Managing the market in Detroit known as Eastern Market

**Basis of Accounting**

The Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The financial statements have been prepared on the accrual basis.

**Recognition of Contributions**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Unconditional contributions are recorded as support at the time verifiable evidence of the pledge is received. Contributions payable in future periods are considered implicitly time-restricted and are reported as temporarily restricted net assets until they are due. Conditional contributions are not recorded as support until the condition is met, at which time they become unconditional.

**Cash Equivalents**

For purposes of the statement of cash flows, the Corporation considers all short-term securities with maturities of three months or less to be cash equivalents.

EASTERN MARKET CORPORATION  
(A Michigan Non-Profit Corporation)

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2007**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Lease Revenue**

Fees are assessed to the vendors and other lessees in the Eastern Market under lease agreements. Stalls at the market may be leased under annual or daily agreements. These fees are recognized as revenue in the period covered by such fees.

**Outreach Project Grant**

The W.K. Kellogg Foundation ("Kellogg") provided a \$2.5 million conditional pledge to the Corporation in February 2007. The purpose of the grant is to establish a community-based food system to link food growers and providers to the community, to encourage community participation in the growing, selling, and use of food, and to foster community education related to healthy choices for food use and consumption.

The Corporation has received \$1.5 million as the first installment, of which \$1 million is designated for maintenance and renovation of the market. This \$1 million balance has been invested in a certificate of deposit with a maturity of more than three months but less than one year at the date of acquisition. See Note D for the conditions and payment schedule for the remaining \$1 million of the pledge.

**Inventory**

Inventory is stated at the lower of cost (determined by the retail inventory method) or market.

**Administration**

For the year ended June 30, 2007, the Corporation entered into an agreement with Detroit Economic Growth Corporation for administrative and professional services. Expenses incurred for these services totaled \$18,333.

EASTERN MARKET CORPORATION  
(A Michigan Non-Profit Corporation)

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2007**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Tax-Exempt Status**

The Corporation has been classified by the Internal Revenue Service as an organization exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. Additionally, the Corporation has been classified by the Internal Revenue Service as an organization that is not a private foundation. Therefore, no provision for federal income taxes has been made in the accompanying financial statements.

**Fixed Assets**

Fixed assets are carried at cost or, if donated, at their estimated fair values at the time of the donation. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets, which range from three to 25 years. The Corporation's policy is to capitalize acquisitions of \$1,000 or more.

**Donated Facilities and Services**

The Corporation has an arrangement with the City of Detroit (the "City") under which the City provides the Corporation with facilities at no charge. Management estimates the fair value of the use of these facilities to be approximately \$15,000 for the year ended June 30, 2007. This value has been included in the accompanying statement of activities.

Donated services are recognized as support in the period the contributions are received at their fair value. The Corporation received donated services of two employees from Detroit Renaissance Foundation from August through December 2006. The value of these services was \$66,625 for the year ended June 30, 2007. This value has been included in the accompanying statement of activities.

**Concentration of Credit Risk**

Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents, grants receivable, and investments.

The Corporation's cash and cash equivalents are located in various institutions; the amount on deposit in one major financial institution exceeds the \$100,000 federally insured limit. Grants receivable are due from the City. Investments consist of a certificate of deposit.

EASTERN MARKET CORPORATION  
(A Michigan Non-Profit Corporation)

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2007**

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**NOTE B - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available as of June 30, 2007 for the following purposes:

Restricted for program activities or projects:	
Economic development and land use plan	<u>\$ 50,000</u>

**NOTE C - CITY OF DETROIT MANAGEMENT AND PROMOTION AGREEMENT**

The Corporation has entered into a management and promotion agreement with the City. Under this agreement, the Corporation is responsible for the operation, promotion, and management of the Eastern Market district on behalf of the City. The Corporation is authorized to prepare and execute lease agreements and collect rents. The Corporation is required to prepare an annual operating budget and to disburse funds in the following order of priority:

- Operating expenses of the market
- Payment of debt service on loans for the improvement of the Eastern Market district that have been approved by the City
- Alterations and/or improvements to the market approved by the City
- An operating reserve account to be maintained by the Corporation, not to exceed five percent of the total revenue generated by the operation of the market in any fiscal year
- A capital reserve account to be maintained by the Corporation, not to exceed five percent of the total revenue generated by the operation of the market in any fiscal year
- Payment to the City's general fund

There is no payment due to the City for the year ended June 30, 2007 under this agreement.

**NOTE D - CONDITIONAL PROMISES TO RECEIVE**

The Corporation obtained a conditional promise to receive from Kellogg. This promise to receive is contingent upon the receipt and approval by Kellogg of an annual report detailing satisfactory progress in achieving the program objectives. Therefore, this promise has not been recorded in the financial statements as of June 30, 2007.



EASTERN MARKET CORPORATION  
(A Michigan Non-Profit Corporation)

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2007**

**NOTE D – CONDITIONAL PROMISES TO RECEIVE (CONTINUED)**

Conditional promises to receive as of June 30, 2007 are summarized below by the expected year of receipt (based on the calendar year):

<b><u>For the Years Ending December 31</u></b>	<b><u>Amount</u></b>
2008	\$ 485,000
2009	350,000
2010	115,000
2011	50,000
	<b><u>\$ 1,000,000</u></b>

**NOTE E – FUNCTIONAL EXPENSES**

The expenses of the Corporation for the year ended June 30, 2007 have been allocated to the following services based on management's estimates:

Program services	\$ 668,606
Supporting services:	
Management and general	106,049
Fund raising	19,208
	<u>          </u>
<b>Total Expenses</b>	<b><u>\$ 793,863</u></b>

Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different allocation.

**NOTE F – LEASES**

The Corporation leases certain equipment under operating lease agreements. Rental expense under these agreements was \$2,852 for the year ended June 30, 2007.

EASTERN MARKET CORPORATION  
(A Michigan Non-Profit Corporation)

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2007**

**NOTE F – LEASES (CONTINUED)**

Future minimum lease payments as of June 30, 2007 are as follows:

<u>For the Years Ending June 30</u>	<u>Amount</u>
2008	\$ 4,272
2009	4,272
2010	3,916
	<u>\$ 12,460</u>

**NOTE G – NEW ACCOUNTING PRONOUNCEMENTS**

The Financial Accounting Standards Board ("FASB") has issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," and SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115." SFAS No. 157 defines "fair value," establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. SFAS No. 159 provides entities with the option of recording many financial instruments and certain other items at fair value and further modifies disclosure requirements regarding such fair values. SFAS No. 157 and SFAS No. 159 apply to the Corporation's financial statements for the year ending June 30, 2009. The Corporation has not determined the impact, if any, on its financial statements of implementing these Statements.

The FASB has also issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes." FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes," prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 applies to the Corporation's financial statements for the year ending June 30, 2008. The Corporation has not determined the impact, if any, on its financial statements of implementing this Interpretation.

**SUPPLEMENTAL SCHEDULE**

**George Johnson  
& Company**


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**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULE**

October 18, 2007

To the Board of Directors  
Eastern Market Corporation  
Detroit, Michigan

We have audited the financial statements of Eastern Market Corporation (a Michigan non-profit Corporation) as of June 30, 2007, and for the year then ended. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on the following page is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
CERTIFIED PUBLIC ACCOUNTANTS

EASTERN MARKET CORPORATION  
(A Michigan Non-Profit Corporation)

**SCHEDULE OF PUBLIC MARKET OPERATIONS**

**For the Year Ended June 30, 2007**

<b>Market Revenue</b>	<b><u>\$ 588,710</u></b>
<b>Expenditures:</b>	
Salaries and benefits	274,332
Professional fees	105,841
Security and maintenance	82,247
Publications and marketing	37,944
Office expenses	33,212
Market improvements	<u>41,618</u>
<b>Total Expenditures</b>	<b><u>575,194</u></b>
<b>Excess of Market Revenue over Expenditures</b>	<b><u>13,516</u></b>
<b>Reserve Accounts:</b>	
Operating reserve (Note C)	13,516
Capital reserve (Note C)	<u>-0-</u>
<b>Total Reserve Accounts</b>	<b><u>13,516</u></b>
<b>Balance Payable to City of Detroit General Fund</b>	<b><u><u>\$ -0-</u></u></b>